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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF LABOR & ECONOMIC GROWTH
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS
COMMISSIONER

Memorandum

DATE: May 14, 2004
TO: All interested parties
FROM: Linda A. Watters *LAW*
SUBJECT: Determination on Degree of Competition in Workers' Compensation Insurance Market

Pursuant to MCL § 500.2409, I have determined that a reasonable degree of competition in the workers compensation insurance statewide market exists.

Although the workers compensation insurance market remains in a hard phase of the underwriting cycle (characterized by higher premiums), I conclude that the market is reasonably competitive.

As was noted in last year's determination on the degree of competition in the workers compensation insurance market, several factors contributed to the higher premiums. First, the workers compensation insurance market experienced an unusually long soft market of declining premiums (dating from about 1994 through 2001). Near the end of this period, premiums had declined enough to threaten profitability. Adding to the soft market condition was the terrorist attack on September 11, 2001 and a weak economy resulting in declining stock prices and dramatically lower interest rates which reduced insurance company reserves.

In spite of these factors, the workers compensation insurance market remains reasonably competitive. An analysis of the voluntary market share clearly shows that no carrier controls the workers compensation insurance market. The Accident Fund Insurance of America, with a 2003 premium of \$310 million (27% of the voluntary market), continues to be the top writer of workers compensation insurance. The second highest premium writer accounted for 4 % of the statewide voluntary market premium. These market share data do not suggest that any carrier is dominant.

The number of carriers writing workers compensation insurance declined by 11 in 2003, but 225 carriers continue writing this coverage. Moreover, the data show that the manual rates exhibit a significant disparity indicating price competition. It is primarily employers engaged in unique businesses that have found it necessary to obtain coverage in the residual market.

Based on the above data, I have determined that the market for workers compensation insurance is reasonably competitive.